

**Chippewa Valley Schools  
Clinton Township, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2008**

# Chippewa Valley Schools

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## Independent Auditor's Report

To the Board of Education  
Chippewa Valley Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa Valley Schools as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Chippewa Valley Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa Valley Schools as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 12 and the budgetary comparison schedule are not required parts of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Education  
Chippewa Valley Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Chippewa Valley Schools' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The other supplemental information is presented for the purpose of additional analysis. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2008 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Plante & Moran, PLLC*

September 22, 2008

# Chippewa Valley Schools

## Management's Discussion and Analysis

This section of Chippewa Valley Schools' (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2008. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

### Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Chippewa Valley Schools financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund and the 2005 Capital Projects Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. The format of the annual report is as follows:

Management's Discussion and Analysis (MD&A)  
(Required Supplemental Information)

#### Basic Financial Statements

District-wide Financial Statements      Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for General Fund

Other Supplemental Information

### ***Reporting the School District as a Whole - District-wide Financial Statements***

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets (deficit) and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

# **Chippewa Valley Schools**

## **Management's Discussion and Analysis (Continued)**

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets (deficit) - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety and maintenance of the schools, to assess the overall health of the School District.

The statement of net assets (deficit) and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, building activities, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

### ***Reporting the School District's Most Significant Funds - Fund Financial Statements***

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Services, Athletics, and Building Activity Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets (deficit) and the statement of activities) and governmental funds in a reconciliation.

# Chippewa Valley Schools

## Management's Discussion and Analysis (Continued)

### *The School District as Trustee - Reporting the School District's Fiduciary Responsibilities*

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### The School District as a Whole

Recall that the statement of net assets (deficit) provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets (deficit) as of June 30, 2008 and, for comparative purposes, net assets (deficit) as of June 30, 2007:

Table 1

	Governmental Activities	
	2008	2007
	(in millions)	
<b>Assets</b>		
Current and other assets	\$ 73.7	\$ 91.5
Capital assets	363.5	348.7
Total assets	437.2	440.2
<b>Liabilities</b>		
Current liabilities	45.1	48.1
Long-term liabilities	440.0	450.0
Total liabilities	485.1	498.1
<b>Net Assets (Deficit)</b>		
Invested in property and equipment - Net of related debt	(54.7)	(63.0)
Restricted	4.5	4.3
Unrestricted	2.3	0.8
Total net assets (deficit)	\$ (47.9)	\$ (57.9)

The above analysis focuses on the net assets (deficit) (see Table 1). The change in net assets (deficit) of the School District's governmental activities is discussed below (see Table 2). The School District's net assets were (\$47.9) million at June 30, 2008.

# Chippewa Valley Schools

## Management's Discussion and Analysis (Continued)

Capital assets, net of related debt totaling (\$54.7) million, compares the original cost, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Key reasons for the capital assets, net of related debt totaling (\$54.7) million, include the School District's participation with the School Bond Loan Fund program and the retirement of debt not equal to the current level of depreciation. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due.

Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations.

The remaining amount of net assets of \$2.3 million was unrestricted. The \$2.3 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2008 and, for comparative purposes, the change in net assets for fiscal year 2007.

Table 2

	Governmental Activities	
	2008	2007
	(in millions)	
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 4.9	\$ 4.8
Federal grants and entitlements	4.7	3.7
State categoricals	6.3	5.3
Operating grants	3.4	3.4
General revenue:		
Property taxes	44.1	41.1
State foundation allowance	93.6	91.0
Other	7.0	6.4
Total revenue	164.0	155.7



# Chippewa Valley Schools

## Management's Discussion and Analysis (Continued)

TABLE 2 (Continued)

	Governmental Activities	
	2008	2007
	(in millions)	
<b>Functions/Program Expenses</b>		
Instruction	\$ 74.8	\$ 75.9
Support services	42.0	39.9
Community services	0.8	0.8
Building activities	1.9	1.7
Food services	3.3	3.3
Athletics	1.8	1.9
Interest on long-term debt	20.2	22.1
Depreciation (unallocated)	9.2	9.4
Total functions/program expenses	154.0	155.0
<b>Increase in Net Assets</b>	<b>\$ 10.0</b>	<b>\$ 0.7</b>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$154 million. Certain activities were partially funded from those who benefited from the programs (\$4.9 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$14.4 million). We paid for the remaining public benefit portion of our governmental activities with \$44.1 million in taxes, \$93.6 million in state foundation allowance, and with our other revenues, i.e., interest and general entitlements.

The School District experienced an increase in net assets of \$10.0 million. Key reasons for the change in net assets include the School District's improvement in fund balance of \$6.2 in the General Fund, investment in capital assets, the retirement of debt, the current level of depreciation, and investment income earned on bond proceeds.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of School District operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

### The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

# Chippewa Valley Schools

## Management's Discussion and Analysis (Continued)

As the School District completed this year, the governmental funds reported a combined fund balance of \$55.2 million, which is a decrease of \$15.2 million from last year. The primary reason for the decrease was the use of 2005 bond funds to finance the completed construction of one 9<sup>th</sup> grade center, one new middle school, and additions and renovations at several other buildings to accommodate growth and to address the aging of buildings. Future years' fund balances will continue to reflect a decrease as these funds are expended.

In the General Fund, our principal operating fund, the fund balance increased by \$6.2 million to \$16.4 million. Of the increase in fund balance of \$6.2 million, \$3.4 million was projected in the final amended budget. An additional \$1.7 million increase in fund balance was attributed to a change from an insured health program to a self-funded health program. The remaining \$1.1 million increase in fund balance that was not accounted for in the final adopted budget can be attributed to the following areas:

- \$140,000 from the sale of used buses and \$90,000 in delinquent tax interest received
- \$110,000 resulted from the teaching supply allocations not being fully spent, which carry forward to the 2008/2009 budget.
- \$100,000 was the result of curriculum software that was purchased for a lower amount than anticipated.
- \$60,000 was the result of the custodial overtime allocation not being fully expended, which carries forward to the 2008/2009 budget.
- \$150,000 resulted from actual natural gas usage and cost being lower than the amount budgeted.
- \$50,000 was the result of contracted community education enrichment costs being lower than the amount budgeted.
- \$120,000 was the result of the transfer from the General Fund to the Athletics Fund being lower than anticipated.
- \$370,000 was the result of small variances throughout both the revenue and expenditure budgets.

General Fund fund balance is available to fund costs related to allowable school operating purposes.

Special Revenue Funds include the Cafeteria, Athletics, Resale, and Building Activities Funds. Our Special Revenue Funds experienced an increase in fund balance from the prior year, showing a net increase of approximately \$279,000.

Combined, the Debt Service Funds showed a fund balance increase of approximately \$312,000. Chippewa Valley Schools continues to assess the maximum allowable millage rate to fund operations and the required millage rate for debt retirement to participate in the School Bond Loan Fund program. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Durant debt obligations are funded by annual state appropriation, and no fund balance exists at year end. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

# **Chippewa Valley Schools**

## **Management's Discussion and Analysis (Continued)**

The combined Capital Projects Funds fund balance decreased as the School District construction related to the 2005 bond issue continues. The construction projects for the 2005 bond issue are estimated to be approximately 85 percent complete at June 30, 2008.

### **General Fund Budgetary Highlights**

Over the course of the year, the School District revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. Amendments to the budget were adopted on December 17, 2007 and May 5, 2008. A schedule showing the School District's original and final budget compared with amounts actually received and expended is provided in the required supplemental information section of these financial statements.

From the original adopted budget to the final amended budget, total projected revenue including other financing sources was increased 3.9 percent or about \$4,646,000, while total projected expenditures including other financing uses was increased .5 percent or about \$625,000, bringing projected revenue to \$125,100,222 and projected expenditures to \$121,683,721.

Projected revenue changes included provisions of revenue for carryover grant amounts for federal and state programs, higher actual enrollment than projected enrollment (an extra 113 students amounting to an additional \$815,000), higher foundation allowance than projected (\$7,204 per pupil allowance versus \$7,085 per pupil allowance for an additional \$1,812,000), supplemental state aid allowance (an additional \$400,000), higher interest income, additional Medicaid reimbursement, and adjustments to various revenue categories.

Projected expenditures changes included provisions of expenditures for carryover grant amounts for federal and state programs and adjustment to expenditures categories in the areas of wages, benefits, purchased services, and supplies and materials. One specific expenditure change that stands out is a result of the increase in the cost of oil. Our diesel fuel budget was increased from \$420,000 to \$545,000 (30 percent).

When comparing the budget to actual figures for both revenues and expenditures, actual revenues were approximately \$207,000 (.2 percent) over projected revenue and actual expenditures were approximately \$2,605,000 (2.1 percent) under projected expenditures. Actual expenditures were under projected expenditures in all major categories (wages (\$122,000 or .16 percent), benefits (\$1,687,000 or 5.29 percent), purchased services (\$211,000 or 4.89 percent), and supplies, materials, and other (\$585,000 or 6.72 percent)).

# Chippewa Valley Schools

## Management's Discussion and Analysis (Continued)

One significant note is the variance between budget and actual expenditures related to employee benefits. Of the total benefit variance of (\$1,687,000), \$1,662,000 was attributable to the change from a fully insured to a self-funded health program on July 1, 2008. The corresponding accounting treatment for premiums paid in July and August for employees who earned benefits through June 30 changes the way the accrual for healthcare costs is calculated under a self-insured arrangement. After consideration of this change, the variance between budget and actual total General Fund expenditures was \$943,000 or 0.77 percent.

Actual fund balance increased by \$6,229,000 to \$16,445,000 (rather than the projected increase of \$3,417,000 to \$13,632,000). The higher than projected increase in fund balance of \$2,812,000 is about 2.4 percent of actual expenditures. As a percentage of expenditures, fund balance increased from 8.7 percent to 13.8 percent. Note that the budgeted fund balance as a percentage of current year expenditures was 11.5 percent; the increase in fund balance resulting from the change from a fully insured to self-insured health benefit program is 1.4 percent; the additional increase in fund balance for other items in the budget is .9 percent.

### Capital Assets and Debt Administration

#### **Capital Assets**

As of June 30, 2008, the School District had \$442.5 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net increase of approximately \$19.1 million, or 4.5 percent, from last year.

	2008	2007
Land	\$ 12,414,233	\$ 12,386,397
Construction in progress	2,654,764	17,049,345
Buildings and building improvements	392,842,374	364,078,773
Buses and other vehicles	7,229,869	6,822,629
Furniture and equipment	27,331,483	22,986,894
Total capital assets	<u>\$ 442,472,723</u>	<u>\$ 423,324,038</u>

This year's net additions of \$19.1 million included new construction, building additions and renovations, technology, and buses. The additions were financed primarily from the 2005 Capital Projects Fund.

We anticipate capital additions in 2008-2009 will be less than the 2007-2008 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

# Chippewa Valley Schools

## Management's Discussion and Analysis (Continued)

### Debt

At the end of the year, the School District had \$372.5 million in bonds outstanding versus \$393.8 million in the previous year - a change of approximately 5 percent. The decrease in outstanding debt was the result of the repayment of principal on outstanding debt.

Those bonds consisted of the following:

	2008	2007
General obligation bonds	<u>\$ 372,506,000</u>	<u>\$ 393,841,000</u>

The School District's general obligation bond rating is AAA per S&P. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to the debt limit. The School District's outstanding qualified general obligation debt of \$372.5 million does not apply to the \$548.3 million statutory limit. The School District has no unqualified general obligation debt.

In addition, the School District has accumulated debt and accrued interest of approximately \$38.0 million and \$35.9 million to be paid to Michigan's School Bond Loan Fund and Michigan's School Bond Loan Revolving Fund, respectively.

Other obligations include accrued vacation pay and sick leave. We present more detailed information about our long-term liabilities in the notes to the financial statements.

### Economic Factors and Next Year's Budgets and Rates

Economic conditions and the ability of the State of Michigan to adequately fund K-12 education continue to be a primary concern for Chippewa Valley Schools for 2008-2009. On August 6, 2008, the governor approved the 2008-2009 School State Aid Bill. The adopted bill provides Chippewa Valley Schools with a \$112 per pupil increase in the foundation allowance and a supplemental grant of \$150,000. However, because of poor economic conditions both nationally and in the state of Michigan, it is uncertain whether the School State Aid Bill can be fully funded. Revenue consensus conferences are scheduled for January 2009 and May 2009 and the results of those conferences will be key in determining whether the full state aid payments can be made.

During the past four years, the School District has made adjustments and implemented cost-savings measures that have reduced costs by \$9.6 million. In addition, the School District delayed the opening of two new buildings by one year, Seneca Middle School and Dakota 9th Grade Center, saving \$2.1 million in 2007-2008. Those two buildings are opening for the 2008-2009 school year.

# **Chippewa Valley Schools**

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## **Management's Discussion and Analysis (Continued)**

The preliminary budget for the General Fund for 2008-2009 adopted on June 16, 2008 uses a foundation allowance increase of \$126 per pupil (\$14 higher than the School State Aid Bill approved amount), no supplemental grant, enrollment growth of 200, wage increases as determined by negotiated contracts with employee groups, a retirement contribution rate that has been reduced from 16.72 percent to 16.54 percent, an increase in health program cost of 17 percent (the School District implemented a self-funded health program as of July 1, 2008; if the prior program had been continued, health program costs would have increased 23 percent), and large increases for electricity, natural gas, and diesel/gasoline vehicle fuel. The School District adopted the budget using the factors described above projecting expenditures exceeding revenue by over \$3.35 million (2.6 percent). The \$3.35 million will be covered by the fund balance.

Opportunities to enhance revenue and control costs will be monitored on an ongoing basis. Until the economy in Michigan stabilizes and a funding mechanism for schools that provides for adequate and predictable funding is established, it will be a challenge to maintain educational services.

# Chippewa Valley Schools

## Statement of Net Assets (Deficit) June 30, 2008

	Governmental Activities
<b>Assets</b>	
Cash and investments (Note 3)	\$ 12,040,860
Receivables:	
Accounts	205,037
Interest	257,440
Due from other governmental units	20,126,767
Inventories	107,672
Prepaid costs	1,337,183
Restricted assets (Note 3)	39,611,051
Capital assets - Net (Note 5)	363,546,986
<b>Total assets</b>	<b>437,232,996</b>
<b>Liabilities</b>	
Accounts payable	3,954,523
Accrued payroll and other liabilities	9,790,799
Employee fringe benefits payable	2,955,724
Retirement benefits payable	2,839,059
Retainage payable	1,254,767
Deferred revenue (Note 4)	597,812
Long-term liabilities (Note 7):	
Due within one year	23,770,883
Due in more than one year	439,996,499
<b>Total liabilities</b>	<b>485,160,066</b>
<b>Net Assets (Deficit)</b>	
Investment in capital assets - Net of related debt	(54,742,382)
Restricted:	
Debt service	1,676,816
Capital projects	2,812,996
Unrestricted	2,325,500
<b>Total net assets (deficit)</b>	<b>\$ (47,927,070)</b>

# Chippewa Valley Schools

## Statement of Activities Year Ended June 30, 2008

	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants/Contributions	Activities
				Net (Expense) Revenue and Changes in Net Assets (Deficit)
<b>Functions/Programs</b>				
Primary government - Governmental activities:				
Instruction	\$ 74,767,456	\$ -	\$ 10,391,890	\$ (64,375,566)
Support services	42,017,459	-	3,104,071	(38,913,388)
Community services	828,233	-	-	(828,233)
Food services	3,330,203	2,414,712	929,049	13,558
Building activities	1,949,286	1,967,320	-	18,034
Athletics	1,765,922	562,989	-	(1,202,933)
Interest on long-term debt	20,194,687	-	-	(20,194,687)
Depreciation (unallocated)	9,223,754	-	-	(9,223,754)
Total governmental activities	<u>\$ 154,077,000</u>	<u>\$ 4,945,021</u>	<u>\$ 14,425,010</u>	(134,706,969)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				14,879,889
Property taxes, levied for debt services				29,197,587
State aid not restricted to specific purposes				93,628,453
Interest and investment earnings				4,099,044
Other				3,501,199
Special item - Loss on disposal of capital assets				(595,496)
Total general revenues and special item				<u>144,710,676</u>
Change in Net Assets				10,003,707
Net Assets (Deficit) - Beginning of year				<u>(57,930,777)</u>
Net Assets (Deficit) - End of year				<u>\$ (47,927,070)</u>



# Chippewa Valley Schools

## Governmental Funds Balance Sheet June 30, 2008

	General Fund	2005 Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments (Note 3)	\$ 8,725,495	\$ -	\$ 3,315,365	\$ 12,040,860
Receivables:				
Accounts	180,911	-	24,126	205,037
Interest	-	257,440	-	257,440
Due from other governments	20,126,767	-	-	20,126,767
Due from other funds (Note 6)	248,365	-	394,895	643,260
Inventories	69,502	-	38,170	107,672
Prepaid costs	1,336,532	651	-	1,337,183
Restricted assets (Note 3)	-	39,610,827	224	39,611,051
<b>Total assets</b>	<b>\$ 30,687,572</b>	<b>\$ 39,868,918</b>	<b>\$ 3,772,780</b>	<b>\$ 74,329,270</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 595,037	\$ 3,303,395	\$ 20,259	\$ 3,918,691
Accrued payroll and other liabilities	6,866,092	-	-	6,866,092
Employee fringe benefits payable	2,955,724	-	-	2,955,724
Retirement benefits payable	2,839,059	-	-	2,839,059
Retainage payable	-	1,250,318	4,449	1,254,767
Due to other funds (Note 6)	430,727	-	248,365	679,092
Deferred revenue (Note 4)	556,495	-	41,317	597,812
<b>Total liabilities</b>	<b>14,243,134</b>	<b>4,553,713</b>	<b>314,390</b>	<b>19,111,237</b>
<b>Fund Balances</b>				
Reserved:				
Capital projects (bonded)	-	30,197,364	224	30,197,588
Debt service	-	-	1,676,816	1,676,816
Inventories	69,502	-	38,170	107,672
Prepays	1,336,532	651	-	1,337,183
Construction commitments (Note 5)	-	5,117,190	-	5,117,190
Unreserved:				
Designated for deferred health benefit costs	1,662,000	-	-	1,662,000
Undesignated, reported in:				
General Fund	13,376,404	-	-	13,376,404
Special Revenue Funds	-	-	1,743,180	1,743,180
<b>Total fund balances</b>	<b>16,444,438</b>	<b>35,315,205</b>	<b>3,458,390</b>	<b>55,218,033</b>
<b>Total liabilities and fund balances</b>	<b>\$ 30,687,572</b>	<b>\$ 39,868,918</b>	<b>\$ 3,772,780</b>	<b>\$ 74,329,270</b>

## Chippewa Valley Schools

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### Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets (Deficit) June 30, 2008

Fund Balance - Total Governmental Funds \$ 55,218,033

Amounts reported for governmental activities in the  
statement of net assets (deficit) are different because:

Capital assets used in governmental activities  
are not financial resources and are not reported  
in the governmental funds:

Cost of capital assets	\$ 442,472,723	
Accumulated depreciation	<u>(78,925,737)</u>	363,546,986

Long-term liabilities are not due and payable  
in the current period and are not reported  
in the governmental funds:

Bonds payable - Net of bond premium and deferred charges	(460,597,425)
Compensated absences	(1,297,584)
Self-insurance liability	(160,988)
Early retirement incentives	(1,711,385)

Accrued interest payable is not included as a liability in governmental funds	<u>(2,924,707)</u>
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Net Assets (Deficit) - Governmental Activities \$ (47,927,070)

# Chippewa Valley Schools

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

	General Fund	2005 Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>				
Local sources	\$ 21,658,551	\$ 2,804,259	\$ 35,601,393	\$ 60,064,203
State sources	99,759,937	-	138,294	99,898,231
Federal sources	3,779,689	-	934,080	4,713,769
Total revenue	125,198,177	2,804,259	36,673,767	164,676,203
<b>Expenditures</b>				
Current:				
Instruction	74,947,274	-	-	74,947,274
Support services	42,113,386	-	-	42,113,386
Community services	759,396	-	-	759,396
Food service	-	-	3,330,203	3,330,203
Athletics	-	-	1,765,922	1,765,922
Building activities	-	-	2,306,431	2,306,431
Debt service:				
Principal	-	-	21,335,000	21,335,000
Interest	-	-	21,043,112	21,043,112
Other	-	-	39,207	39,207
Capital outlay	29,396	24,550,271	302,886	24,882,553
Total expenditures	117,849,452	24,550,271	50,122,761	192,522,484
<b>Excess of Revenue Over (Under) Expenditures</b>	7,348,725	(21,746,012)	(13,448,994)	(27,846,281)
<b>Other Financing (Uses) Sources</b>				
Transfers (out) in	(1,120,046)	-	1,120,046	-
Long-term debt issued	-	-	12,663,371	12,663,371
Total other financing (uses) sources	(1,120,046)	-	13,783,417	12,663,371
<b>Net Change in Fund Balances</b>	6,228,679	(21,746,012)	334,423	(15,182,910)
<b>Fund Balances - Beginning of year</b>	10,215,759	57,061,217	3,123,967	70,400,943
<b>Fund Balances - End of year</b>	<u>\$ 16,444,438</u>	<u>\$ 35,315,205</u>	<u>\$ 3,458,390</u>	<u>\$ 55,218,033</u>

# Chippewa Valley Schools

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds \$ (15,182,910)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (9,223,754)	
Capitalized capital outlay	<u>24,677,679</u>	15,453,925

Loss on disposal of assets; in the statement of activities, these are recorded as a special item expense (595,496)

Bond and debt issuances are not reported as financing sources in the statement of activities (12,663,371)

Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 140,311

Amortization of deferred charges reported is not recorded as an expense in the statement of activities (142,938)

Amortization of bond premium is not recorded as revenue in the governmental funds 851,052

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 21,335,000

Compensated absences, as well as estimated self-insured liability claims, are recorded when earned in the statement of activities. In the current year, more was paid out than earned 808,134

Change in Net Assets of Governmental Activities \$ 10,003,707

# Chippewa Valley Schools

## **Fiduciary Fund Statement of Fiduciary Assets and Liabilities June 30, 2008**

	Student Activities <u>Agency Fund</u>
<b>Assets</b>	
Cash and investments (Note 3)	\$ 845,839
Due from other funds	<u>35,832</u>
Total assets	<u><u>\$ 881,671</u></u>
<b>Liabilities - Due to student groups</b>	<u><u>\$ 881,671</u></u>

# Chippewa Valley Schools

## Notes to Financial Statements June 30, 2008

### Note 1 - Summary of Significant Accounting Policies

The accounting policies of Chippewa Valley Schools (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

#### Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

#### District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

**District-wide Financial Statements** - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

**Special Item** - Transactions within the control of management that are either unusual in nature or infrequent in occurrence are reported as special items in the statement of activities.

**Fund Financial Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the School District.

# Chippewa Valley Schools

## Notes to Financial Statements June 30, 2008

### Note 1 - Summary of Significant Accounting Policies (Continued)

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

**General Fund** - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

**2005 Bond Capital Projects Fund** - The 2005 Bond Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The fund operates until the purpose for which it was created is accomplished.

Additionally, the School District reports the following fund types:

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's Special Revenue Funds include the Food Services, Athletics, Resale, and Building Activities Funds. Any operating deficit generated by these activities is the responsibility of the General Fund.

**Debt Service Funds** - The School District's Debt Service Funds are used to record tax, interest, and other revenue for payment of interest, principal, and other expenditures on the related bond issues.

**2001 Series I Bond Capital Projects Fund** - The 2001 Series I Bond Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The fund operates until the purpose for which it was created is accomplished.



### Note 1 - Summary of Significant Accounting Policies (Continued)

**2002 Bond Capital Projects Fund** - The 2002 Bond Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The fund operates until the purpose for which it was created is accomplished.

**2005 MISD Capital Projects Fund** - The 2005 MISD Capital Projects Fund is used to record construction costs and reimbursements related to the construction of a building wing on behalf of the Macomb Intermediate School District (MISD). All construction costs incurred by the School District are being fully reimbursed by the MISD, in accordance with a cooperative agreement. The MISD will run programs in this building wing for a 30-year period, at which time the wing will revert to the School District for use.

**Fiduciary Fund - Agency Fund** - The Fiduciary Fund is used to account for assets held by the School District in a trustee capacity or as an agent. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of operations. The only Fiduciary Fund is a Student Activities Fund (Agency) that is used to record the transactions of student groups for schools and school-related purposes. The funds are segregated and held in trust for students.

#### Assets, Liabilities, and Net Assets or Equity

**Cash and Investments** - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Investment income is recorded in the fund for which the investment account was established.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property is assessed as of December 31 and the related property taxes are levied and become a lien on July 1 of the following year. These taxes are due on September 14 with the final collection date of February 28. Taxes are considered delinquent on March 1 the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Inventories and Prepaid Costs** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

**Restricted Assets** - The unspent bond proceeds of the Capital Projects Funds require amounts to be set aside for construction and the debt funds cash required to be used for future bond payments. These amounts have been classified as restricted assets.

**Capital Assets** - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building improvements	20-50 years
Buses and other vehicles	7 years
Furniture and equipment	5-20 years

**Compensated Absences** - The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated vacation and sick leave benefits and early retirement incentives. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Long-term Obligations** - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets (deficit). Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Balance** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Comparative Data/Reclassifications** - Comparative data is not included in the School District's financial statements.

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. Various administrators are authorized to transfer budgeted amounts within functions with any fund; however, any revisions that alter the total expenditures of any function must be approved by the Board of Education. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. The School District did not have any expenditure overruns. State law permits districts to amend their budgets during the year. The School District amended its budget twice during the fiscal year. These budget amendments were adopted by the school board on December 17, 2007 and May 5, 2008.

# Chippewa Valley Schools

## Notes to Financial Statements June 30, 2008

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Capital Projects Fund Compliance** - The 2001 Capital Projects Fund, the 2002 Capital Projects Fund, and the 2005 Capital Projects Fund include capital project activities funded with bonds issued after May 1, 1994.

For these capital projects, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

### Note 3 - Deposits and Investments

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper (rated prime at the time of purchase that matures not more than 270 days after the date of purchase), mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District has designated seven banks for the deposit of its funds.

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

#### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the School District's deposits. At year end, the School District's deposit balance of \$24,297,196 had \$22,915,910 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### **Note 3 - Deposits and Investments (Continued)**

#### **Custodial Credit Risk of Investments**

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's policy for custodial credit risk states that custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law. At June 30, 2008, the School District did not hold any investment securities that were uninsured and unregistered.

#### **Interest Rate Risk**

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities. The School District's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools; and limiting the average maturity in accordance with the School District's cash requirements.

#### **Credit Risk**

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

# Chippewa Valley Schools

## Notes to Financial Statements June 30, 2008

### Note 3 - Deposits and Investments (Continued)

At year end, the maturities of investments and the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Weighted Average Maturities	Rating	Rating Organization
Bank investment pool	\$ 402,020	N/A	AAAm	Standard & Poor's
Bank investment pool	968,087	N/A	Aaa	Moody's
Michigan Liquid Asset Fund	5,969,313	N/A	AAAm	Standard & Poor's
U.S. agency bonds	21,537,854	.51 years	AAAm	Standard & Poor's
Total investments	<u>\$ 28,877,274</u>			

### Concentration of Credit Risk

The School District places no limit on the amount the School District may invest in any one issuer. The School District's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5 percent of the School District's investments are in various U.S. agency bonds. The investment issuer and the percent of total investments of these bonds are as follows:

Issuer	Percent of Investments
Federal National Mortgage Association	13
Federal Home Loan Bank	18
Federal Home Loan Mortgage Corporation	17
Freddie Mac	27

# Chippewa Valley Schools

## Notes to Financial Statements June 30, 2008

### Note 3 - Deposits and Investments (Continued)

#### Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the School District's policy prohibit investment in foreign currency.

### Note 4 - Receivables

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the School District has \$556,495 of unearned deferred revenue related to grants received and tuition payments received but not yet earned and \$41,317 of deposits received for the subsequent year's food service program.

### Note 5 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2007	Additions	Reclassifications	Disposals and Adjustments	Balance June 30, 2008
Capital assets not being depreciated:					
Land	\$ 12,386,397	\$ 27,836	\$ -	\$ -	\$ 12,414,233
Construction in progress	17,049,345	-	(14,394,581)	-	2,654,764
Subtotal	29,435,742	27,836	(14,394,581)	-	15,068,997
Capital assets being depreciated:					
Buildings and building improvements	364,078,773	18,730,287	14,394,581	(4,361,267)	392,842,374
Buses and other vehicles	6,822,629	1,265,936	-	(858,696)	7,229,869
Furniture and equipment	22,986,894	4,653,620	-	(309,031)	27,331,483
Subtotal	393,888,296	24,649,843	14,394,581	(5,528,994)	427,403,726
Accumulated depreciation:					
Buildings and building improvements	57,022,874	7,017,139	-	-	64,040,013
Buses and other vehicles	3,633,073	497,785	-	(772,826)	3,358,032
Furniture and equipment	13,979,534	1,708,830	-	(4,160,672)	11,527,692
Subtotal	74,635,481	9,223,754	-	(4,933,498)	78,925,737
Net capital assets being depreciated	319,252,815	15,426,089	14,394,581	(595,496)	348,477,989
Net governmental capital assets	\$ 348,688,557	\$ 15,453,925	\$ -	\$ (595,496)	\$ 363,546,986

# Chippewa Valley Schools

## Notes to Financial Statements June 30, 2008

### Note 5 - Capital Assets (Continued)

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

**Construction Commitments** - The School District has active construction projects at year end. The projects are reported in the 2005 Capital Projects Fund. At year end, the School District's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
2005 Capital Projects Fund	<u>\$ 105,423,365</u>	<u>\$ 5,117,190</u>

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Fund Due To</u>	<u>Fund Due From</u>		<u>Total</u>
	<u>General Fund</u>	<u>Other Nonmajor Governmental Funds</u>	
General Fund	\$ -	\$ 248,365	\$ 248,365
Other nonmajor governmental funds	394,895	-	394,895
Fiduciary Fund	<u>35,832</u>	<u>-</u>	<u>35,832</u>
Total	<u>\$ 430,727</u>	<u>\$ 248,365</u>	<u>\$ 679,092</u>

Interfund balances represent routine and temporary cash flow assistance from the General Fund until amounts are transferred from fund investment accounts.

#### Interfund Transfers

Transfers of \$1,229,046 from the General Fund subsidized operations in the Athletics Fund and transfers of \$109,000 from the Cafeteria Fund to the General Fund for a reimbursement of operating costs.



# Chippewa Valley Schools

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt

The School District issues bonds and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, termination benefits, and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 393,841,000	\$ -	\$ 21,335,000	\$ 372,506,000	\$ 21,490,000
Durant Non-Plaintiff Bond	809,988	-	-	809,988	76,344
School bond loan	36,344,838	1,633,427	-	37,978,265	-
School Loan Revolving Fund	24,827,788	11,029,944	-	35,857,732	-
Bond premium and issuance costs	16,869,373	-	851,052	16,018,321	851,052
Less deferred refunding charges	(2,715,819)	-	(142,938)	(2,572,881)	(142,938)
Other obligations	3,978,091	698,919	1,507,053	3,169,957	1,496,425
Total governmental activities	\$ 473,955,259	\$ 13,362,290	\$ 23,550,167	\$ 463,767,382	\$ 23,770,883

Annual debt service requirements to maturity for the above governmental and Durant bond obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2009	\$ 21,566,344	\$ 17,285,249	\$ 38,851,593
2010	21,286,976	16,409,139	37,696,115
2011	21,328,785	15,503,839	36,832,624
2012	21,844,936	14,664,180	36,509,116
2013	21,652,947	13,480,325	35,133,272
2014-2018	87,106,000	53,379,281	140,485,281
2019-2023	78,475,000	34,618,596	113,093,596
2024-2028	60,730,000	17,118,490	77,848,490
2029-2033	32,525,000	6,610,438	39,135,438
2034	6,800,000	340,000	7,140,000
Total	\$ 373,315,988	\$ 189,409,537	\$ 562,725,525

# Chippewa Valley Schools

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt (Continued)

#### Governmental Activities

General obligation bonds consist of the following:

1998 issue - \$85,005,000 serial bonds due in annual installments of \$10,000 to \$2,385,000 through May 1, 2013; interest from 4.15 percent to 6.0 percent	\$ 3,900,000
2001 Series I issue - \$61,715,000 serial bonds due in annual installments of \$2,550,000 through May 1, 2011; interest from 3.75 percent to 5.375 percent	7,650,000
2002 issue - \$50,050,000 serial bonds due in annual installments of \$1,775,000 to \$2,765,000 through May 1, 2012; interest from 4.0 percent to 5.5 percent	8,710,000
2003 Refunding issue - \$58,895,000 serial bonds due in annual installments of \$2,845,000 to \$3,410,000 through May 1, 2021; interest from 2.25 percent to 5.0 percent	40,550,000
2003 School Bond Loan Refunding issue - \$34,761,580 serial bonds due in annual installments of \$3,635,000 to \$4,266,000 through May 1, 2014; fixed interest at 3.318 percent	23,661,000
2004 Refunding issue - \$19,570,000 serial bonds due in annual installments of \$1,100,000 to \$1,995,000 through May 1, 2015; interest from 2.5 percent to 5.0 percent	9,200,000
2005 issue - \$158,335,000 serial bonds due in annual installments of \$4,600,000 to \$6,800,000 through May 1, 2034; interest from 3.8 percent to 5.0 percent	151,125,000
2005 Refunding issue - \$64,285,000 serial bonds due in annual installments of \$2,425,000 to \$7,730,000 through May 1, 2027; interest at 5.0 percent	64,285,000
2006 Refunding issue - \$63,575,000 serial bonds due in annual installments of \$110,000 to \$8,435,000 through May 1, 2027; interest from 4.0 percent to 5.0 percent	<u>63,425,000</u>
Total bonded debt	<u>\$ 372,506,000</u>

# Chippewa Valley Schools

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt (Continued)

Other governmental activities long-term obligations include the following:

Employee-compensated absences	\$ 1,297,584
Voluntary retirement supplement	1,711,385
Workers' compensation self-insurance	<u>160,988</u>
Total	<u>\$ 3,169,957</u>

**Durant Non-Plaintiff Bond** - Included in Governmental Activities General Obligation Bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) of \$96,333 to \$647,230 associated with this bond are funded by the State of Michigan via specifically appropriated state aid and will not require any School District debt levy or utilization of any other School District financial resources. The Durant Non-Plaintiff Bond is comprised of the following issue:

\$1,371,786 School Improvement Bond, Series 1998 - due in annual installments of \$76,344 to \$477,936 through May 15, 2013; interest at 4.76 percent.

**School Bond Loan** - The school bond loan payable represents notes payable to the State of Michigan for loans made to the School District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. Interest, at an annual rate ranging from 4.25 percent to 4.75 percent from July 1, 2007 to June 30, 2008, has been assessed for the year ended June 30, 2008. Repayment is required when the millage rate necessary to cover the annual bonded debt service falls below 7 mills. The School District is required to levy 7 mills and repay to the State any excess of the amount levied over the bonded debt service requirements. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the School District, no provision for repayment has been included in the above amortization schedule.

# Chippewa Valley Schools

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt (Continued)

**School Loan Revolving Fund** - The School Loan Revolving Fund payable represents notes payable to the State of Michigan for loans made to the School District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board in accordance with Section 9 of Act No. 92 of the Public Acts of 2005, as amended. Interest rates went into effect beginning October 1, 2005 pursuant to Public Act 92. Interest at the annual rate of 4.823 percent from July 1, 2007 to October 3, 2007, 4.769 percent from October 4, 2007 to October 9, 2007, 4.781 percent from October 10, 2007 to November 4, 2007, 4.577 percent for November 5, 2007, 4.586 for November 6, 2007, 4.658 percent from November 7, 2007 to November 12, 2007, 4.624 percent from November 13, 2007 to March 3, 2008, and 4.384 percent from March 4, 2008 to June 30, 2008 has been assessed for the year ended June 30, 2008. Repayment begins as soon as annual tax collections exceed annual debt service payment requirements. The predetermined mandatory final loan repayment date is May 1, 2040. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the School District, no provision for repayment has been included in the above amortization schedule.

**Advance Refundings** - In prior years, the School District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2008, \$287,095,000 of prior years' bonds outstanding are considered defeased.

### Note 8 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for all claims except workers' compensation and dental. Workers' compensation is partially uninsured. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. For dental, claims are limited to various maximum amounts which depend on employee contractual groups.

# Chippewa Valley Schools

## Notes to Financial Statements June 30, 2008

### Note 8 - Risk Management (Continued)

The School District estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the district-wide statements. Changes in the estimated liability for the past two fiscal years were as follows:

	2008	2007
Estimated liability - Beginning of year	\$ 291,151	\$ 198,323
Estimated claims incurred - Including changes in estimates	132,987	267,037
Claim payments	263,150	174,209
Estimated liability - End of year	<u>\$ 160,988</u>	<u>\$ 291,151</u>

Beginning July 1, 2008, the School District became partially self-insured for medical benefits provided to employees. The School District's maximum loss exposure for the fiscal year ending June 30, 2009 is limited and the School District has purchased commercial excess insurance coverage to pay employee claims in excess of deductible amounts.

### Note 9 - Defined Benefit Pension Plan and Postemployment Benefits

**Plan Description** - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the pension and post employment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing MI 48909.

### **Note 9 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)**

**Pension Benefits** - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rate was 11.19 percent of covered payroll for the period from July 1, 2007 through September 30, 2007 and 10.17 percent for the period from October 1, 2007 through June 30, 2008. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's required and actual contributions to the plan for the years ended June 30, 2008, 2007, and 2006 were \$8,139,565, \$8,474,399, and \$7,143,343, respectively.

**Postemployment Benefits** - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 6.55 percent of covered payroll for the period from July 1, 2007 through September 30, 2007 and 6.55 percent for the period from October 1, 2007 through June 30, 2008. The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2008, 2007, and 2006 were \$5,114,067, \$5,120,601, and \$4,965,657, respectively.

## **Required Supplemental Information**

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# Chippewa Valley Schools

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenue</b>				
Local sources	\$ 21,223,500	\$ 21,233,580	\$ 21,658,551	\$ 424,971
State sources	96,000,888	99,969,644	99,759,937	(209,707)
Federal sources	3,121,213	3,787,998	3,779,689	(8,309)
Total revenue	120,345,601	124,991,222	125,198,177	206,955
<b>Expenditures - Current</b>				
Instruction:				
Basic programs	64,511,190	64,562,897	63,345,856	(1,217,041)
Added needs	12,202,721	11,661,082	11,359,844	(301,238)
Adult and continuing education	276,502	230,008	230,982	974
Support services:				
Pupil	10,146,928	10,278,672	10,105,766	(172,906)
Instructional staff	4,150,084	4,348,515	4,056,228	(292,287)
General administration	886,242	758,634	716,107	(42,527)
School administration	7,132,609	7,308,308	7,245,672	(62,636)
Business services	1,700,377	1,868,980	1,834,270	(34,710)
Operations and maintenance	10,659,912	11,023,221	10,879,505	(143,716)
Transportation and maintenance	4,092,433	4,281,012	4,177,806	(103,206)
Central	3,055,548	3,180,796	3,138,729	(42,067)
Community services	893,800	831,596	758,687	(72,909)
Total expenditures	119,708,346	120,333,721	117,849,452	(2,484,269)
<b>Other Financing Sources (Uses)</b>				
Transfers in	109,000	109,000	109,000	-
Transfers out	(1,350,000)	(1,350,000)	(1,229,046)	120,954
Total other financing uses	(1,241,000)	(1,241,000)	(1,120,046)	120,954
<b>Net Change in Fund Balance</b>	(603,745)	3,416,501	6,228,679	2,812,178
<b>Fund Balance - July 1, 2007</b>	9,128,539	10,215,759	10,215,759	-
<b>Fund Balance - June 30, 2008</b>	<u>\$ 8,524,794</u>	<u>\$ 13,632,260</u>	<u>\$ 16,444,438</u>	<u>\$ 2,812,178</u>



## **Other Supplemental Information**

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# Chippewa Valley Schools

	Special Revenue Funds				Debt Service Funds			
	Catering	Resale	Athletics	Building Activities	1998 Issue	2001 Issue	2002 Issue	2003 Refunding Issue
<b>Assets</b>								
Cash and investments	\$ 631,537	\$ -	\$ -	\$ 1,006,924	\$ 167,966	\$ 147,736	\$ 213,093	\$ 229,361
Accounts receivable	-	-	-	19,675	-	-	-	-
Due from other funds	-	208,796	186,099	-	-	-	-	-
Inventories	38,170	-	-	-	-	-	-	-
Restricted assets	-	-	-	-	-	-	-	-
Total assets	<u>\$ 669,707</u>	<u>\$ 208,796</u>	<u>\$ 186,099</u>	<u>\$ 1,026,599</u>	<u>\$ 167,966</u>	<u>\$ 147,736</u>	<u>\$ 213,093</u>	<u>\$ 229,361</u>
<b>Liabilities and Fund Balances</b>								
<b>Liabilities</b>								
Accounts payable	\$ 14,712	\$ -	\$ -	\$ 5,457	\$ -	\$ -	\$ -	\$ -
Retainage payable	-	-	-	-	-	-	-	-
Due to other funds	109,034	-	-	139,331	-	-	-	-
Deferred revenue	41,317	-	-	-	-	-	-	-
Total liabilities	165,063	-	-	144,788	-	-	-	-
<b>Fund Balances</b>								
Reserved:								
Capital projects (bonded)	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	167,966	147,736	213,093	229,361
Inventories	38,170	-	-	-	-	-	-	-
Unreserved - Undesignated, reported in Special Revenue Funds	166,474	208,796	186,099	881,811	-	-	-	-
Total fund balances	504,644	208,796	186,099	881,811	167,966	147,736	213,093	229,361
Total liabilities and fund balances	<u>\$ 669,707</u>	<u>\$ 208,796</u>	<u>\$ 186,099</u>	<u>\$ 1,026,599</u>	<u>\$ 167,966</u>	<u>\$ 147,736</u>	<u>\$ 213,093</u>	<u>\$ 229,361</u>

**Other Supplemental Information**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2008**

Debt Service Funds					Capital Projects Fund			Total
2004 Refunding Issue	2005 Issue	2005 Refunding	School Bond Loan Refunding	2006 Refunding	2001 Series I Capital Projects Fund	2002 Capital Projects Fund	2005 MISD Capital Projects Fund	
\$ 105,993	\$ 462,284	\$ 108,713	\$ 204,606	\$ 37,064	\$ -	\$ -	\$ 89	\$ 3,315,365
-	-	-	-	-	-	-	4,451	24,126
-	-	-	-	-	-	-	-	394,895
-	-	-	-	-	-	-	-	38,170
-	-	-	-	-	118	106	-	224
<u>\$ 105,993</u>	<u>\$ 462,284</u>	<u>\$ 108,713</u>	<u>\$ 204,606</u>	<u>\$ 37,064</u>	<u>\$ 118</u>	<u>\$ 106</u>	<u>\$ 4,539</u>	<u>\$ 3,772,780</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 90	\$ 20,259
-	-	-	-	-	-	-	4,449	4,449
-	-	-	-	-	-	-	-	248,365
-	-	-	-	-	-	-	-	41,317
-	-	-	-	-	-	-	4,539	314,390
-	-	-	-	-	118	106	-	224
105,993	462,284	108,713	204,606	37,064	-	-	-	1,676,816
-	-	-	-	-	-	-	-	38,170
-	-	-	-	-	-	-	-	1,743,180
<u>105,993</u>	<u>462,284</u>	<u>108,713</u>	<u>204,606</u>	<u>37,064</u>	<u>118</u>	<u>106</u>	<u>-</u>	<u>3,458,390</u>
<u>\$ 105,993</u>	<u>\$ 462,284</u>	<u>\$ 108,713</u>	<u>\$ 204,606</u>	<u>\$ 37,064</u>	<u>\$ 118</u>	<u>\$ 106</u>	<u>\$ 4,539</u>	<u>\$ 3,772,780</u>

# Chippewa Valley Schools

	Special Revenue Funds				Debt Service Funds			
	Cafeteria	Resale	Athletics	Building Activities	1998 Issue	2001 Issue	2002 Issue	2003 Refunding Issue
<b>Revenue</b>								
Local	\$ 2,430,397	\$ 565,941	\$ 562,989	\$ 1,967,320	\$ 1,999,561	\$ 2,254,987	\$ 2,567,988	\$ 4,207,383
State	138,294	-	-	-	-	-	-	-
Federal	934,080	-	-	-	-	-	-	-
<b>Total revenue</b>	<b>3,502,771</b>	<b>565,941</b>	<b>562,989</b>	<b>1,967,320</b>	<b>1,999,561</b>	<b>2,254,987</b>	<b>2,567,988</b>	<b>4,207,383</b>
<b>Expenditures</b>								
Current:								
Food services	3,330,203	-	-	-	-	-	-	-
Athletics	-	-	1,765,922	-	-	-	-	-
Building activities	-	357,145	-	1,949,286	-	-	-	-
Debt service:								
Principal	-	-	-	-	2,285,000	2,550,000	2,790,000	3,500,000
Interest	-	-	-	-	884,473	776,371	920,539	2,435,495
Other	-	-	-	-	2,909	3,184	3,576	5,501
Capital outlay	11,893	-	26,113	-	-	-	-	-
<b>Total expenditures</b>	<b>3,342,096</b>	<b>357,145</b>	<b>1,792,035</b>	<b>1,949,286</b>	<b>3,172,382</b>	<b>3,329,355</b>	<b>3,714,115</b>	<b>5,940,996</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>160,675</b>	<b>208,796</b>	<b>(1,229,046)</b>	<b>18,034</b>	<b>(1,172,821)</b>	<b>(1,074,368)</b>	<b>(1,146,127)</b>	<b>(1,733,613)</b>
<b>Other Financing Sources (Uses)</b>								
Transfers in	-	-	1,229,046	-	-	-	-	-
Transfers out	(109,000)	-	-	-	-	-	-	-
Long-term debt issued	-	-	-	-	1,212,617	1,089,285	1,206,031	1,766,611
<b>Total other financing sources (uses)</b>	<b>(109,000)</b>	<b>-</b>	<b>1,229,046</b>	<b>-</b>	<b>1,212,617</b>	<b>1,089,285</b>	<b>1,206,031</b>	<b>1,766,611</b>
<b>Net Change in Fund Balances</b>	<b>\$1,675</b>	<b>208,796</b>	<b>-</b>	<b>18,034</b>	<b>39,796</b>	<b>14,717</b>	<b>61,904</b>	<b>32,998</b>
<b>Fund Balances - Beginning of year</b>	<b>452,969</b>	<b>-</b>	<b>186,099</b>	<b>863,777</b>	<b>128,170</b>	<b>133,019</b>	<b>151,189</b>	<b>196,363</b>
<b>Fund Balances - End of year</b>	<b>\$ 504,644</b>	<b>\$ 208,796</b>	<b>\$ 186,099</b>	<b>\$ 881,811</b>	<b>\$ 167,966</b>	<b>\$ 147,736</b>	<b>\$ 213,093</b>	<b>\$ 229,361</b>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures,**  
**and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2008**

Debt Service Funds					Capital Projects Fund			Total
2004 Refunding	2005 Issue	2005 Refunding	School Bond		2001 Series I	2002 Capital	2005 MISD	
			Loan Refunding	2006 Refunding	Capital Projects Fund	Projects Fund	Capital Projects Fund	
\$ 2,278,405	\$ 8,732,552	\$ 2,421,276	\$ 3,377,316	\$ 2,226,591	\$ 5,119	\$ 3,618	\$ -	\$ 35,601,393
-	-	-	-	-	-	-	-	(38,294)
-	-	-	-	-	-	-	-	934,080
2,278,405	8,732,552	2,421,276	3,377,316	2,226,591	5,119	3,618	-	36,673,767
-	-	-	-	-	-	-	-	3,330,203
-	-	-	-	-	-	-	-	1,765,922
-	-	-	-	-	-	-	-	2,306,431
2,540,000	4,000,000	-	3,520,000	150,000	-	-	-	21,335,000
797,297	7,905,817	3,348,555	1,115,855	2,858,710	-	-	-	21,043,112
3,048	11,039	3,154	4,404	2,392	-	-	-	39,207
-	-	-	-	-	171,799	93,081	-	302,886
3,340,345	11,916,856	3,351,709	4,640,259	3,011,102	171,799	93,081	-	50,122,761
(1,061,940)	(3,184,304)	(930,483)	(1,262,943)	(784,511)	(166,680)	(89,463)	-	(13,448,994)
-	-	-	-	-	-	-	-	1,229,046
-	-	-	-	-	-	-	-	(109,000)
1,057,927	3,270,202	927,854	1,315,495	815,349	-	-	-	12,663,371
1,057,927	3,270,202	927,854	1,315,495	815,349	-	-	-	13,783,417
(4,013)	85,898	(2,629)	57,552	30,838	(166,680)	(89,463)	-	334,423
110,006	376,386	111,342	157,054	6,226	166,798	89,569	-	3,123,967
<b>\$ 105,993</b>	<b>\$ 462,284</b>	<b>\$ 108,713</b>	<b>\$ 204,606</b>	<b>\$ 37,064</b>	<b>\$ 118</b>	<b>\$ 106</b>	<b>\$ -</b>	<b>\$ 3,458,390</b>

# Chippewa Valley Schools

June 30	2006		2005		2004	
	Durant	Refunding Issue	Refunding Issue	2005 Issue	2004 Issue	
	Principal	Principal	Principal	Principal	Principal	
2009	\$ 76,344	\$ 150,000	\$ -	\$ 4,600,000	\$ 1,995,000	
2010	79,976	2,645,000	-	5,225,000	1,305,000	
2011	83,785	2,765,000	-	5,250,000	1,265,000	
2012	177,936	2,680,000	2,685,000	5,275,000	1,225,000	
2013	91,947	1,905,000	5,365,000	5,300,000	1,180,000	
2014	-	1,890,000	5,490,000	5,325,000	1,130,000	
2015	-	110,000	7,410,000	5,350,000	1,100,000	
2016	-	115,000	7,520,000	5,400,000	-	
2017	-	120,000	7,625,000	5,450,000	-	
2018	-	125,000	7,730,000	5,500,000	-	
2019	-	5,530,000	2,435,000	5,575,000	-	
2020	-	5,615,000	2,425,000	5,650,000	-	
2021	-	8,285,000	-	5,725,000	-	
2022	-	8,435,000	-	5,800,000	-	
2023	-	8,425,000	-	5,875,000	-	
2024	-	4,345,000	3,900,000	5,950,000	-	
2025	-	4,320,000	3,900,000	6,025,000	-	
2026	-	4,290,000	3,900,000	6,100,000	-	
2027	-	1,675,000	3,900,000	6,175,000	-	
2028	-	-	-	6,250,000	-	
2029	-	-	-	6,325,000	-	
2030	-	-	-	6,400,000	-	
2031	-	-	-	6,500,000	-	
2032	-	-	-	6,600,000	-	
2033	-	-	-	6,700,000	-	
2034	-	-	-	6,800,000	-	
Total	\$ 809,988	\$ 63,425,000	\$ 64,285,000	\$ 151,125,000	\$ 9,200,000	
Principal payments due	May 15	May 1	May 1	May 1	May 1	
Interest payments due	May 15	May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1	
Interest rate	4.76%	4.0% to 5.0%	5.0%	3.8% to 5.0%	2.0% to 5.0%	
Original issue	\$ 1,371,786	\$ 63,575,000	\$ 64,285,000	\$ 158,335,000	\$ 19,570,000	

**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**Year Ended June 30, 2008**

2003 SBL Refunding Issue	2003 Issue	2002 Issue	2001 Issue	1998 Issue	Total
Principal	Principal	Principal	Principal	Principal	
\$ 3,635,000	\$ 3,410,000	\$ 2,765,000	\$ 2,550,000	\$ 2,385,000	\$ 21,566,344
3,752,000	3,325,000	2,395,000	2,550,000	10,000	21,286,976
3,875,000	3,255,000	1,775,000	2,550,000	510,000	21,328,785
4,002,000	3,225,000	1,775,000	-	500,000	21,844,936
4,131,000	3,185,000	-	-	495,000	21,652,947
4,266,000	3,175,000	-	-	-	21,276,000
-	3,135,000	-	-	-	17,105,000
-	3,090,000	-	-	-	16,125,000
-	3,050,000	-	-	-	16,245,000
-	3,000,000	-	-	-	16,355,000
-	2,955,000	-	-	-	16,495,000
-	2,900,000	-	-	-	16,590,000
-	2,845,000	-	-	-	16,855,000
-	-	-	-	-	14,235,000
-	-	-	-	-	14,300,000
-	-	-	-	-	14,195,000
-	-	-	-	-	14,245,000
-	-	-	-	-	14,290,000
-	-	-	-	-	11,750,000
-	-	-	-	-	6,250,000
-	-	-	-	-	6,325,000
-	-	-	-	-	6,400,000
-	-	-	-	-	6,500,000
-	-	-	-	-	6,600,000
-	-	-	-	-	6,700,000
-	-	-	-	-	6,800,000
<b>\$ 23,661,000</b>	<b>\$ 40,550,000</b>	<b>\$ 8,710,000</b>	<b>\$ 7,650,000</b>	<b>\$ 3,900,000</b>	<b>\$ 373,315,988</b>
May 1	May 1	May 1	May 1	May 1	
May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1	
3.318%	2.25% to 5.0%	4.0% to 5.5%	3.75% to 5.375%	4.15% to 6.0%	
<b>\$ 34,761,580</b>	<b>\$ 58,895,000</b>	<b>\$ 50,050,000</b>	<b>\$ 61,715,000</b>	<b>\$ 85,005,000</b>	

# **Chippewa Valley Schools**

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**Federal Awards  
Supplemental Information  
June 30, 2008**

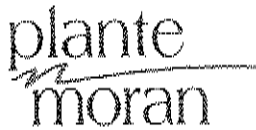


# Chippewa Valley Schools

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## Independent Auditor's Report

To the Board of Education  
Chippewa Valley Schools

We have audited the financial statements that collectively comprise the basic financial statements of Chippewa Valley Schools as of and for the year ended June 30, 2008 and have issued our report thereon dated September 22, 2008. Those basic financial statements are the responsibility of the management of Chippewa Valley Schools. Our responsibility was to express opinions on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Chippewa Valley Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

September 22, 2008

Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards*

To the Board of Education  
Chippewa Valley Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa Valley Schools as of and for the year ended June 30, 2008, which collectively comprise Chippewa Valley Schools' basic financial statements, and have issued our report thereon dated September 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Chippewa Valley Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Chippewa Valley Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Chippewa Valley Schools' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Education  
Chippewa Valley Schools

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Chippewa Valley Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Education, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Alanta & Morax, PLLC*

September 22, 2008

Report on Compliance with Requirements Applicable to Each Major Program and on  
Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Education  
Chippewa Valley Schools

**Compliance**

We have audited the compliance of Chippewa Valley Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The major federal programs of Chippewa Valley Schools are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Chippewa Valley Schools' management. Our responsibility is to express an opinion on Chippewa Valley Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Chippewa Valley Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Chippewa Valley Schools' compliance with those requirements.

In our opinion, Chippewa Valley Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

To the Board of Education  
Chippewa Valley Schools

### **Internal Control Over Compliance**

The management of Chippewa Valley Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Chippewa Valley Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Education, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Morse, PLLC*

September 22, 2008

# Chippewa Valley Schools

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures
<b>Clusters:</b>			
Child Nutrition Cluster - U.S. Department of Agriculture - Passed through the Michigan Department of Education:			
National School Breakfast Program - 2007-2008	10.553	\$ 75,280	\$ 55,872
National School Lunch Program - 2007-2008	10.555	715,475	607,581
Total Child Nutrition Cluster		790,755	663,453
 Workforce Investment Act Cluster - U.S. Department of Labor - Macomb/St. Clair Workforce Development Board - Passed through Macomb County ISD:			
SRC: 31 WIA Youth Regular Project number 06-1051	17.259	80,322	80,322
SRC: 31 WIA Youth Summer Project number 07-1050		6,439	
SRC: 31 WIA Youth Regular Project number 07-1051		91,728	
Michigan Works Administrative Assistant Vocational Training Program 10/1/06 - 9/30/08:			
Work First	93.561	-	26,966
TANF Jar Pilot	93.558	-	6,071
TANF	93.558	-	-
WIA TANF Replacement	17.258	140,740	-
Total Workforce Investment Act Cluster		319,229	113,359
 Special Education Cluster - U.S. Department of Education - Passed through the Macomb County ISD:			
IDEA:	84.027		
Project number 070450/0607 CB		1,924,379	1,591,538
Project number 080490-TS		6,000	-
Project number 080450/0709 CB		2,030,606	-
Total IDEA		3,960,985	1,591,538
Preschool Incentive:	84.173		
Project number 070460-0607		85,632	82,512
Project number 080460-0708		87,101	-
Total Preschool Incentive		172,733	82,512
Michigan Schools Integrated Behavior & Learning Support Initiative - Project number 07	84.027A	2,500	1,652
Total passed through the Macomb ISD		4,136,218	1,675,702
 Passed through the Michigan Department of Education - Service Provider Self Review - Project number 080440-0708			
	84.027A	5,500	-
Total Special Education Cluster		4,141,718	1,675,702

See Notes to Schedule of Expenditures  
of Federal Awards.

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

Accrued (Deferred) Revenue at June 30, 2007	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Final Expenditures	Accrued (Deferred) Revenue at June 30, 2008
\$ -	\$ -	\$ 75,280	\$ 75,280	\$ -
-	-	715,475	715,475	-
-	-	790,755	790,755	-
47,132	-	47,132	-	-
-	-	5,068	5,068	-
-	-	71,401	82,625	11,224
-	-	-	-	-
6,071	-	5,534	(537)	-
-	-	13,678	13,678	-
-	-	40,707	48,568	7,861
53,203	-	183,520	149,402	19,085
148,253	-	481,094	332,841	-
-	-	6,000	6,000	-
-	-	612,780	2,027,986	1,415,206
148,253	-	1,099,874	2,366,827	1,415,206
18,288	-	21,408	3,120	-
-	-	28,409	87,101	58,692
18,288	-	49,817	90,221	58,692
(848)	848	-	-	-
165,693	848	1,149,691	2,457,048	1,473,898
-	-	1,846	5,500	3,654
165,693	848	1,151,537	2,462,548	1,477,552



# Chippewa Valley Schools

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures
Other Federal Awards:			
U.S. Department of Education:			
Indian Education Grant award # S060A72342	84.060A	\$ 96,501	\$ -
Passed through the Macomb County ISD:	84.048		
Vocational Education - Basic Grants to States (Perkins (III)) - Project number 083520 601216		145,910	-
Taking Action to Manage Emergencies II (TAME II) - Project number Q184E050079	84.184E	51,292	12,400
Adult Ed - State Administered - Project number 081130-810198	84.002	51,907	-
Total awards as subrecipient from Macomb Intermediate School District		249,109	12,400
Passed through the Michigan Department of Education:	84.010		
Title I:		377,933	286,924
Project number 0715300607		462,384	-
Project number 0815300709			
Total Title I		840,317	286,924
Technology Literacy Challenge - Title II, Part D:	84.318		
Project number 0642900607		6,849	6,849
Project number 0742900607		3,840	1,581
Project number 0842900608		6,296	-
Total Technology Literacy Challenge - Title II, Part D		16,985	8,430
Title III - Limited English:	84.365A		
Project number 060570/0506		72,565	4,046
Project number 070570/0607		45,803	45,803
Project number 080570/0709		39,577	-
Total Title III - Limited English		157,945	49,849
Title V - LEA:	84.298		
Project number 0702500607		3,015	2,159
Project number 0802500608		3,929	-
Total Title V - LEA		6,944	2,159

See Notes to Schedule of Expenditures  
of Federal Awards.

**Schedule of Expenditures of Federal Awards (Continued)**  
**Year Ended June 30, 2008**

Accrued (Deferred) Revenue at June 30, 2007	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Final Expenditures	Accrued (Deferred) Revenue at June 30, 2008
\$ -	\$ -	\$ 81,858	\$ 96,501	\$ 14,643
-	-	145,910	145,910	-
-	-	38,892	38,892	-
-	-	51,907	51,907	-
-	-	236,709	236,709	-
85,724	-	143,977	58,253	-
-	-	213,130	391,604	178,474
85,724	-	357,107	449,857	178,474
3,479	-	3,479	-	-
1,581	-	1,581	-	-
-	-	5,098	6,296	1,198
5,060	-	10,158	6,296	1,198
177	-	177	-	-
8,074	-	8,074	-	-
-	-	38,851	38,915	64
8,251	-	47,102	38,915	64
443	-	443	-	-
-	-	2,224	3,395	1,171
443	-	2,667	3,395	1,171

# Chippewa Valley Schools

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures
Other Federal Awards (Continued):			
U.S. Department of Education (Continued):			
Passed through the Michigan Department of Education (Continued):			
Safe and Drug-free Schools and Communities:			
Project number 0728600607	84.186	\$ 34,978	\$ 21,808
Project number 0828600708		37,604	-
Total Safe and Drug-free Schools and Communities		72,582	21,808
Improving Teacher Quality, Title II, Part A:			
Project number 0705200607	84.367	306,056	243,389
Project number 0805200708		346,229	-
Total Improving Teacher Quality		652,285	243,389
Total U.S. Department of Education passed through the Michigan Department of Education		1,747,058	612,559
Passed through Macomb Community College -			
Tech Prep Education Project number 0835407014-16	84.243	6,275	-
Total U.S. Department of Education Noncluster Programs		2,098,943	624,959
U.S. Department of Agriculture - Passed through the Michigan Department of Education - Food Distribution - Entitlement commodities - 2007-2008			
	10.550	143,325	-
Total federal awards		\$ 7,493,970	\$ 3,077,473

See Notes to Schedule of Expenditures  
of Federal Awards.

**Schedule of Expenditures of Federal Awards (Continued)**  
**Year Ended June 30, 2008**

Accrued (Deferred) Revenue at June 30, 2007	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Final Expenditures	Accrued (Deferred) Revenue at June 30, 2008
\$ 10,950	\$ -	\$ 24,119	\$ 13,169	\$ -
-	-	31,335	35,413	4,078
10,950	-	55,454	48,582	4,078
28,787	-	55,767	26,980	-
-	-	133,999	254,229	120,230
28,787	-	189,766	281,209	120,230
139,215	-	662,254	828,254	305,215
-	-	6,275	6,275	-
139,215	-	987,096	1,167,739	319,858
-	-	143,325	143,325	-
<b>\$ 358,111</b>	<b>\$ 848</b>	<b>\$ 3,256,233</b>	<b>\$ 4,713,769</b>	<b>\$ 1,816,495</b>

# **Chippewa Valley Schools**

## **Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2008**

### **Note 1 - Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Chippewa Valley Schools and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

### **Note 2 - Noncash Assistance**

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

### **Note 3 - Grant Section Auditor's Report**

Management has utilized Form R-7120 and the Cash Management System (CMS) Grant Auditor Report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

### **Note 4 - Adjustments and Transfers**

At June 30, 2008, an adjustment to the Michigan Schools Integrated Behavior and Learning Initiative (MiBSLI) of \$848 is reflected to correct a misclassification of deferred revenue reported in the June 30, 2007 schedule of expenditures of federal awards.

# Chippewa Valley Schools

## Schedule of Findings and Questioned Costs Year Ended June 30, 2008

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

#### Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major program:

CFDA Number(s)	Name of Federal Program or Cluster
84.027, 84.173	Special Education Cluster

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low risk auditee? ☒ Yes ☐ No

# **Chippewa Valley Schools**

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## **Schedule of Findings and Questioned Costs (Continued)** **Year Ended June 30, 2008**

### **Section II - Financial Statement Audit Findings**

None

### **Section III - Federal Program Audit Findings**

None

**Chippewa Valley Schools  
Clinton Township, Michigan**

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**Report to the Board of Education  
June 30, 2008**





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September 22, 2008

To the Board of Education  
Chippewa Valley Schools  
19120 Cass Avenue  
Clinton Township, MI 48038

Dear Board Members:

We have recently completed our audit of the basic financial statements of Chippewa Valley Schools (the "District") for the year ended June 30, 2008. In addition to our audit report, we are providing the following required audit communication and informational comments which impact the District:

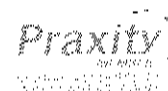
	<u>Page</u>
<b>Report on the Results of the Audit Process</b>	2-4
<b>Other Recommendations</b>	5-6
<b>Informational Items</b>	7-9

We are grateful for the opportunity to be of service to Chippewa Valley Schools. We also express our appreciation to Mr. Sederlund, Mrs. Mills, Mrs. Jacobs, and the entire business office for the courtesy and cooperation extended to us during the course of the engagement. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

**Plante & Moran, PLLC**

cc: Mr. Mark Deldin, Superintendent  
Mr. Scott Sederlund, Assistant Superintendent for Business  
Mrs. Janice Mills, Accounting Supervisor





## Report on the Results of the Audit Process

Plante & Moran, PLLC  
Suite 600  
19175 Hall Road  
Canton Township, MI 48008  
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September 22, 2008

To the Board of Education  
Chippewa Valley Schools

We have audited the financial statements of Chippewa Valley Schools for the year ended June 30, 2008 and have issued our report thereon dated September 22, 2008. Professional standards require that we provide you with the following information related to our audit.

### Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 28, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the District. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the District's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. There were no instances of noncompliance conditions identified during our audit.

We also are obligated to communicate certain matters related to our audit to those responsible for the governance of the District, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our discussion and letter about planning matters dated June 16, 2008.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred. The disclosures in the financial statements are neutral, consistent, and clear.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

#### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. During the audit, management adjusted investments to reflect fair value. This misstatement, detected as a result of audit procedures and corrected by management, was not material to the financial statements taken as a whole.

#### ***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### ***Management's Representations***

We have requested certain representations from management that are included in the management representation letter dated September 22, 2008.

### ***Management's Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Other Audit Findings or Issues***

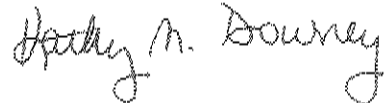
In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the District, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the District's auditors.

As required by OMB Circular A-133, we have also completed an audit of the federal programs administered by the District. The results of that audit are provided to the Board of Education in our report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 dated September 22, 2008.

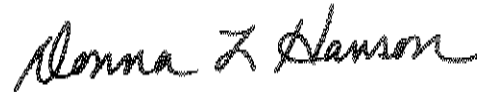
This information is intended solely for the use of the Board of Education and management of Chippewa Valley Public Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**



Kathy M. Downey



Donna L. Hanson

## **Other Recommendations**

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### Internal Control Observations and Suggestions

During our audit process, we attempt to identify opportunities for the District to revise or update its system of internal control. The primary goal of internal control is to provide reasonable (as opposed to an absolute) protection to the District and its assets and financial information. We appreciate the District has limited resources and must look to maximize the benefits from the resources it utilizes. With that in mind, we offer the following for District consideration as it continues to improve its operations.

**Information Technology (IT)** - As a result of the new audit standards which were in effect for the current year, we were required to perform a more detailed and comprehensive review of the District's technology controls and procedures. During this review, we noted certain areas which could be enhanced to meet industry best practices.

**User Access** - Currently there is an informal process (typically verbal) for notifying IT of new employees/users, terminations, and access changes to IT. We recommend that a formal process (utilizing a paper or electronic form) be implemented. This formal process would document user access required and necessary approvals, and IT could use this process to document the user access granted, terminated, or changed. The forms should be retained either by IT or human resources (HR) for the duration of the employee's/user's employment, or in the case of termination, the duration of the audit. A formalized process reduces the risk of confusion when granting and terminating access for users and will also ensure that an employee's access is commensurate with the employee's job function and does not allow for conflicting access.

**Password Policy** - Currently, network passwords are required to be five characters in length, have no expiration, complexity is not enforced, and there is no lock-out of users after a number of unsuccessful attempts. With the current trends in data security breaches, management should consider implementing the following controls:

- Requiring passwords to be a minimum of seven characters
- Setting an expiration of 90 days
- Enforcing complexity
- Locking users out after three unsuccessful attempts to log in

## **Informational**

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# **Chippewa Valley Schools**

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### **State Aid Issues**

#### **2008/2009**

For 2008/2009, the governor and Legislature continued to work through the State's budget issues. Once again, schools were asked to establish budgets without knowing the level of funding to be provided by the State. In July 2008, a compromise was reached.

#### **Foundation Allowance**

The budget agreement provides for a \$112 increase (1.6 percent increase) in the District's foundation allowance. As part of the agreement, the State continued with a sliding scale equity payment concept within the foundation formula. The base foundation increase is \$56 per pupil. Being that Chippewa Valley Schools is one of the lowest funded districts in the state, the District will receive an additional \$56 per pupil.

#### **Retirement Rate**

The 2008/2009 retirement rate has been determined. The rate for the fiscal year beginning October 1, 2008 will be 16.54 percent.

#### **Kindergarten Full-funding "Intent" Language**

As part of the budget plan, the amendments to the State Aid Act include "intent language" to move toward a full-day kindergarten requirement. Essentially the language provides that, beginning in fiscal year 2009-2010, half-day developmental kindergarten programs would be funded at 50 percent (current law fully funds those programs). In addition, kindergarten programs would be fully funded in fiscal year 2010-2011 if they operated for 60 percent of a day, and fully funded in FY 2011-2012 if they operated for 70 percent of a day.

As the State's budget year moves forward, it will monitor the revenue intake with periodic revenue-estimating conferences. State law requires that the appropriations cannot exceed revenue estimates. As a result, it is possible there could be reductions to district funding if the State is not able to generate the funding levels identified in the May 2008 revenue-estimating conference.



# **Chippewa Valley Schools**

## **Informational (Continued)**

### **Michigan Business Tax Changes Impacting Public Schools**

The State of Michigan has recently replaced the Michigan single business tax with the new Michigan business tax. Two provisions of the new MBT will impact K-12 funding.

- The MBT expands the existing community foundation credit to include educational foundations. If your educational foundation meets certain specified criteria, business donors can receive an MBT credit equal to 50 percent of their contribution, limited to 5 percent of the donor's tax liability or \$5,000. This provision will provide tax incentives to businesses to support educational foundations, and, as a result, could lead to enhanced funding to the District.
- The MBT also provides for personal property tax relief to businesses. Businesses will receive a 24 mill reduction on industrial personal property, and a 12 mill reduction on commercial personal property. Most districts will experience a substantial reduction in personal property tax receipts. To offset this reduction, the MBT requires the State to make specific payments to the School Aid Fund. It remains uncertain exactly how these funding changes will impact individual districts, and the resulting cash flow may be delayed as the payments migrate to the 11 monthly state aid payments. We encourage you to closely monitor these changes and adjust your budgeting and cash flow plans accordingly.